Financial Section

Independent Auditors' Report

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF PUBLIC EMPLOYEES' RETIREMENT FUND BOARD OF TRUSTEES

We have audited the accompanying basic financial statements of the Public Employees' Retirement Fund Board of Trustees (PERF), as of and for the year ended June 30, 2005. These basic financial statements are the responsibility of the Public Employees' Retirement Fund Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The reserves and designations note disclosure for the pension plans administered by the Public Employees' Retirement Fund Board of Trustees does not disclose the balances of the legally required reserves or their funding status as of June 30, 2005. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the basic financial statements referred to above present fairly, in all material respects, the combined plan net assets of the fiduciary funds of the Public Employees' Retirement Fund Board of Trustees, as of June 30, 2005, and the changes in the combined plan net assets of the fiduciary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Employer Contributions and the Notes to Required Supplemental Schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section, Administrative Expenses, Investment Expenses, Contractual and Professional Service Expenses, Investment Section, Actuarial Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections and schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

State Board of Accounts

STATE BOARD OF ACCOUNTS

December 12, 2005

Management's Discussion & Analysis

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement Fund of Indiana (PERF) financial statements for the year ended June 30, 2005. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal included in the Introductory Section of the PERF Comprehensive Annual Financial Report. The MD&A should also be read in conjunction with the financial statements, the notes to the financial statements and the supplementary information.

The following retirement plans are included in the PERF financial statements: Public Employees' Retirement Fund, Judges' Retirement System, Excise Police and Conservation Enforcement Officers' Retirement Plan, 1977 Police Officers' and Firefighters' Pension and Disability Fund, Legislators' Defined Contribution Plan, Legislators' Defined Benefit Plan and the Prosecuting Attorneys' Retirement Fund. Also included in the financial statements are other non-retirement funds managed by PERF, which include the Pension Relief Fund, which is accounted for as an Investment Trust Fund, and two Other Employee Benefit Trust Funds, the Public Safety Officers' Special Death Benefit Fund and the State Employees' Death Benefit Fund. See the notes to the financial statements for descriptions of these plans.

Financial Highlights

- The net assets of PERF were $13.4 billion as of June 30, 2005. Net assets of the retirement plans, which are held in trust to meet future benefit payments, were $13 billion as of June 30, 2005. Net assets of the Pension Relief Fund, which are held in trust for pool participants, were $355 million as of the fiscal year end.
- The net assets of PERF increased by $1.1 billion, or 9 percent from the prior year. The increase was primarily due to investment earnings.
- Substantially all of the investments for the retirement funds administered by PERF are pooled in the Consolidated Retirement Investment Fund (CRIF). The CRIF rate of return on investments for the year was 9.5 percent on a market value basis, compared to last year's return of 16.3 percent. The higher return for 2004 was due to a significant improvement in the world equity markets from the previous year. The world equity markets, while continuing to demonstrate strong performance for 2005, were not at double-digit rates for 2004.
- As of July 1, 2004, the date of the most recent actuarial valuation, the largest pension plan administered by PERF, the Public Employees' Retirement Fund is actuarially funded at 100.1 percent, which is slightly less than the 102.9 percent funded level as of July 1, 2003. Employer contributions are adjusted each year based on actuarial computations to fund the plan.
- The net assets of the Pension Relief Fund were $355 million as of June 30, 2005 compared to $393 million as of June 30, 2004. Pension Relief distributions are mandated by state law and continue to outpace revenues.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to PERF's financial statements. The financial section of the PERF Comprehensive Annual Financial Report is comprised of four components: 1) PERF's financial statements, 2) notes to the financial statements, 3) required supplementary information and 4) other supplementary information. The information available in each of these sections is briefly summarized as follows:

1) Financial Statements

The statement of fiduciary net assets presents information on PERF's assets and liabilities and the resulting net assets held in trust for pension benefits, employee death benefits and for pool participants. This statement reflects PERF's investments, at fair value, along with cash and short-term investments, receivables, and other assets and liabilities. This statement indicates the net assets available to pay future pension and death benefits and gives a snapshot at a particular point in time. This statement also indicates the net assets held in trust for pool participants in the Pension Relief Fund, which are available for future distributions to cities and towns.

The statement of changes in fiduciary net assets presents information showing how PERF's net assets held in trust for pension and death benefits and for pool participants changed during the years ended June 30, 2005 and 2004. It reflects contributions by members and employers along with deductions for retirement benefits, refunds, Pension Relief Fund distributions and withdrawals, and administrative expenses. Investment income and losses during the period are also presented showing income from investing and securities lending activities.

2) Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in PERF's financial statements.

3) Required Supplementary Information

The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer Contributions and related notes concerning the funding status of the pension plans administered by PERF.

4) Other Supplementary Information

Other schedules include detailed information on administrative expenses incurred by PERF, as well as investment expenses and other professional services' expenses incurred. These schedules are presented for the purpose of additional analysis.

Financial Analysis

Total assets of PERF were $16.3 billion as of June 30, 2005, compared with $14.9 billion as of June 30, 2004. The increase in total assets was primarily due to investment gains during the year.

Total liabilities were $2.9 billion as of June 30, 2005, compared with $2.6 billion as of June 30, 2004. The increase was mainly due to an increase in securities lending activity and the additional collateral (liabilities) related to that activity, and investments sold where settlement had not occurred by June 30, 2005.

A summary of PERF's Net Assets is presented below:

Net Assets
(dollars in thousands)

	June 30, 2005	June 30, 2004	% Change
Assets			
Cash and Cash Equivalents	$ 421,867	$ 569,494	(25.9) %
Securities Lending Collateral	2,093,832	1,902,155	10.1
Receivables	687,698	568,918	20.8
Investments	13,164,049	11,916,057	10.5
Capitol Investments	3,171	0	—
Total Assets	**16,370,617**	**14,956,624**	**9.4**
Liabilities			
Securities Lending Collateral	2,093,832	1,902,155	10.0
Other Current Liabilities	873,095	763,811	14.3
Long-Term Liabilities	277	306	9.5
Total Liabilities	**2,967,204**	**2,666,272**	**11.3**
Total Net Assets	**$ 13,403,413**	**$ 12,290,352**	**9.0 %**

As the above table shows, plan net assets were $13.4 billion as of June 30, 2005, an increase of $1.1 billion, or 9.0 percent, compared to the prior year. This was due to investment income of the same approximate percentage. World equity markets remained strong through 2005 and continued to provide for above-average investment returns.

A summary of net assets by fund compared to the prior year is as follows:

Summary Of Net Assets By Fund
(dollars in thousands)

	June 30, 2005	June 30, 2004	% Change
Public Employees' Retirement Fund	$ 10,398,671	$ 9,586,901	8.5%
Judges' Retirement System	170,995	150,812	13.4
Excise Police & Conservation Enforcement Officers' Retirement Plan	47,266	42,917	10.1
1977 Police Officers' & Firefighters' Pension and Disability Fund	2,381,662	2,071,572	14.9
Prosecuting Attorneys' Retirement Fund	18,981	16,152	17.5
Legislators' Defined Benefit Plan	4,953	4,661	6.3
Legislators' Defined Contribution Plan	18,067	16,299	10.8
Public Safety Officers Death Benefit Fund	1,649	1,835	(10.1)
State Employees Death Benefit Fund	5,575	5,419	2.9
Pension Relief Fund	355,594	393,784	(9.7)
Total	$ 13,403,413	$ 12,290,352	9.0 %

Substantially, all of the investments for the retirement funds administered by PERF are pooled in the Consolidated Retirement Investment Fund (CRIF). The investments of the non-retirement funds administered by PERF are not included in the CRIF. The following table presents PERF's investment allocation in the CRIF compared to PERF's target investment allocation and the prior year allocation.

	June 30, 2005 Actual	June 30, 2005 Target	Allowable Range	June 30, 2004 Actual
Fixed Income	18.7 %	20.0%	17.0 to 26.0 %	19.2 %
Domestic Equity	49.5	45.0	42.0 to 51.0	50.0
International Equity	13.3	11.0	8.0 to 17.0	12.2
Global Equity	8.4	9.0	6.0 to 15.0	8.4
TIPS	9.4	10.0	7.0 to 16.0	9.3
Alternative Investments	0.3	5.0	2.0 to 11.0	0.1
Cash	0.4	0	0 to 1.0	0.8
Total*	100 %	100%		100 %

*Numbers may not sum due to rounding.

Management's Discussion & Analysis (continued)

A summary of the changes in net assets during the years ended June 30, 2005 and 2004 is presented below:

Changes In Net Assets
(dollars in thousands)

	FY Ended June 30, 2005	FY Ended June 30, 2004	% Change
Additions			
Member Contributions	$ 172,510	$ 167,855	2.8 %
Employer Contributions	340,872	349,631	(2.5)
Contributions to Pension Relief Fund:			
From Cities and Towns	0	0	—
From the State of Indiana	61,834	61,695	0.2
Other Contributions from the State	19	22	
Net Investment Income (Loss)	1,139,936	1,682,728	(32.2)
Transfers from Teachers' Retirement Fund	2,982	2,364	26.1
Other	719	196	266.8
Total Additions	**$ 1,718,872**	**$ 2,264,491**	**(24.1)%**
Deductions			
Benefits	425,939	408,602	4.2
Refunds	38,652	35,520	8.8
Transfers to Teachers' Retirement Fund	3,973	2,781	42.8
Pension Relief Distributions	115,228	103,463	11.4
Local Unit Withdrawals	4,091	6,004	(31.2)
Administrative Expenses	17,928	16,562	8.2
Total Deductions	**$ 605,811**	**$ 572,932**	**5.7%**
Increase (Decrease) in Net Assets	**1,113,061**	**1,691,559**	**(34.2)**
Change in Net Assets Held in Trust for:			
Pension Benefits	**1,151,279**	**1,718,937**	**(33.0)**
Pool Participants	**(38,190)**	**(26,753)**	**(42.7)**
Future Death Benefits	**(28)**	**(625)**	**95.5**

Additions

Additions needed to fund benefits are accumulated through contributions from members and employers, and returns on invested funds. Member contributions for the year ended June 30, 2005 totaled $172.5 million. This represents an increase of $4.6 million or 2.8 percent compared to the prior year. Employer contributions were $340.8 million, a decrease of $8.7 million or 2.5 percent. Employer contributions are adjusted each year based on actuarial computations to fund the plan. Because the net returns on investments have exceeded actuarial assumptions, employer contribution rates have decreased.

PERF recognized a net investment income of $1.14 billion for the year ended June 30, 2005, compared to a net investment income of $1.68 billion the prior year. The total rate of return on the CRIF was a 9.5 percent compared to a 16.3 percent the prior year.

Indiana Law, effective for the fiscal year ended June 30, 2002, permitted cities and towns to defer receiving their earmarked relief payments from the Pension Relief Fund. The deferred amounts remain invested in the fund and are available to those cities and towns at their request. There were no deferrals during the year ended June 30, 2005. The State of Indiana makes contributions to the Pension Relief Fund. These contributions totaled $61.8 million and $61.7 million in the fiscal years ended June 30, 2005 and 2004, respectively.

Deductions

The deductions from PERF's net assets held in trust for pension benefits include primarily retirement, disability and survivor benefits, refunds of contributions to former members and administrative expenses. For the year ended June 30, 2005, benefits amounted to $425.9 million, an increase of $17.3 million or 4.2 percent from the prior year. The increase in benefits was due to a slight increase in the number of retirees and legislative mandated increases to the average benefit paid. Refunds to former members were $38.6 million, which represents an increase of 8.8 percent over the prior year. Part of the increase in refunds was due to increased turnover of public employees by state and local elections.

Administrative expenses were $17.9 million, an increase of $1.3 million compared to the prior year. The current year increase is primarily due to various initiatives to improve financial reporting and internal control processes reported by the State Board of Accounts in their audit report for the 2004 fiscal year, as well as technological enhancements to gain efficiencies and improve customer service.

Historical Trends

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the defined benefit pension plans administered by PERF as of the latest actual valuations were as follows:

	July 1, 2004	July 1, 2003
Public Employees' Retirement Fund	100.1 %	102.9 %
Judges' Retirement System	64.7	61.0
Excise Police & Conservation Enforcement Officers' Retirement Plan	77.5	71.7
Prosecuting Attorneys' Retirement Fund	64.9	81.3
Legislators' Defined Benefit Plan	86.6	84.9
	January 1, 2004	**January 1, 2003**
1977 Police Officers' & Firefighters' Pension and Disability Fund	95.8	94.0

An analysis of the funding progress, employer contributions, and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements.

Combined Statement of Fiduciary Net Assets

*As of June 30, 2005 (with Comparative Totals as of June 30, 2004)**

(Dollars in Thousands)	Pension Trust Funds				
	Public Employees' Retirement Fund	Judges' Retirement System	Excise Police & Conservation Enforcement Officers' Retirement Plan	1977 Police Officers' and Firefighters' Pension and Disability Fund	Prosecuting Attorneys' Retirement Fund
Assets					
Cash and Cash Equivalents	$ 336,173	$ 5,524	$ 1,528	$ 73,709	$ 608
Securities Lending Collateral	1,604,870	27,963	7,719	383,543	3,100
Receivables:					
Contributions	68,212	81	79	39,275	31
Investment Income	31,960	552	152	7,568	61
Due From Other Funds	9,927	–	–	–	–
Investments	411,704	7,173	1,980	98,390	795
Member Loans	–	–	–	–	–
Due From Teachers' Retirement Fund	496	–	–	–	–
Total Receivables:	522,299	7,806	2,211	145,233	887
Investments:					
U.S. Treasury and Agency Obligations	1,408,037	24,534	6,772	336,503	2,720
Corporate Bonds and Notes	434,691	7,574	2,091	103,886	840
Common Stock	6,292,579	106,357	29,358	1,458,780	11,791
Foreign Bonds	50,533	880	243	12,077	98
Mortgage Securities	564,552	9,837	2,715	134,921	1,090
Mutual Funds	1,242,409	16,829	4,645	230,823	1,866
Asset Backed	121,097	2,110	582	28,941	234
Commercial Mortgage Backed	72,380	1,261	348	17,298	140
Other	30,501	523	144	7,169	58
Real Estate Investments	–	–	–	–	–
Total Investments:	10,216,779	169,905	46,898	2,330,398	18,837
Capitalized Assets:					
Building	3,338	—	—	—	—
Accumulated Depreciation	(167)	—	—	—	—
Total Capitalized Assets:	3,171	—	—	—	—
Total Assets	12,683,292	211,198	58,356	2,932,883	23,432
Liabilities					
Accounts Payable	9,258	15	(6)	42	(4)
Salaries and Benefits Payable	430	–	–	–	–
Death Benefits Payable	–	–	–	–	–
Investments	669,786	11,670	3,221	160,062	1,294
Due To Teachers' Retirement Fund	–	–	–	–	–
Securities Lending Collateral	1,604,870	27,963	7,719	383,543	3,100
Due To Other Funds	–	555	156	7,574	61
Total Current Liabilities	2,284,344	40,203	11,090	551,221	4,451
Compensated Absences Liability-Long Term	277	–	–	–	–
Total Liabilities	2,284,621	40,203	11,090	551,221	4,451
Net Assets Held in Trust for:					
Employees' Pension Benefits, (See Schedule of Funding Progress on page 47)	10,398,671	170,995	47,266	2,381,662	18,981
Future Death Benefits	–	–	–	–	–
State and Local Units	–	–	–	–	–
Total Net Assets	$ 10,398,671	$ 170,995	$ 47,266	$ 2,381,662	$ 18,981

*The accompanying notes are an integral part of these financial statements.

Legislators' Retirement System: Defined Benefit Plan	Legislators' Retirement System: Defined Contribution Plan	Other Employee Benefit Trust Funds: Public Safety Officers' Death Benefit Fund	Other Employee Benefit Trust Funds: State Employees' Death Benefit Fund	Investment Trust Fund: Pension Relief Fund	2005 Totals	2004 Totals
$ 151	$ 1,755	$ 50	$ 172	$ 2,197	$ 421,867	$ 569,493
799	1,728	216	861	63,033	2,093,832	1,902,154
–	9	–	–	–	107,687	108,973
16	38	22	74	3,476	43,919	42,446
133	–	–	–	–	10,060	17,364
205	443	115	632	3,521	524,958	392,098
–	578	–	–	–	578	588
–	–	–	–	–	496	7,448
354	1,068	137	706	6,997	687,698	568,917
701	1,516	933	3,009	150,704	1,935,429	1,672,196
216	468	452	1,260	85,141	636,619	606,631
3,038	6,571	–	–	104,553	8,013,027	7,335,367
25	54	–	–	12,267	76,177	90,947
281	608	327	921	–	715,252	798,415
481	6,988	–	–	–	1,504,041	1,266,441
60	130	51	316	–	153,521	89,567
36	78	–	–	–	91,541	31,428
15	32	–	–	–	38,442	19,673
–	–	–	–	–	–	5,396
4,853	16,445	1,763	5,506	352,665	13,164,049	11,916,061
—	—	—	—	—	3,338	—
—	—	—	—	—	(167)	—
—	—	—	—	—	3,171	—
6,157	20,996	2,166	7,245	424,892	16,370,617	14,956,625
(3)	3	–	–	1,136	10,441	7,014
–	–	–	–	–	430	188
–	–	–	–	–	–	300
333	721	296	791	3,991	852,165	728,686
–	–	–	–	–	–	10,261
799	1,728	216	861	63,033	2,093,832	1,902,155
75	477	5	18	1,138	10,059	17,364
1,204	2,929	517	1,670	69,298	2,966,927	2,665,968
–	–	–	–	–	277	306
1,204	2,929	517	1,670	69,298	2,967,204	2,666,274
4,953	18,067	-	-	-	13,040,595	11,889,316
–	–	1,649	5,575	–	7,224	7,252
–	–	–	–	355,594	355,594	393,784
$ 4,953	$ 18,067	$ 1,649	$ 5,575	$ 355,594	$ 13,403,413	$ 12,290,352

Combined Statement of Changes in Fiduciary Net Assets

*For the Year Ended June 30, 2005 (with Comparative Totals for the Year Ended June 30, 2004)**

(Dollars in Thousands)	Pension Trust Funds				
	Public Employees' Retirement Fund	Judges' Retirement System	Excise Police & Conservation Enforcement Officers' Retirement Plan	1977 Police Officers' and Firefighters' Pension and Disability Fund	Prosecuting Attorneys' Retirement Fund
Additions					
Contributions					
Members	$ 136,009	$ 1,569	$ 68	$ 32,622	$ 856
Employers	206,323	13,540	2,164	117,678	961
Additions from Cities and Towns	–	–	–	–	–
Other Contributions from State of Indiana:					
Cigarette Tax	–	–	–	–	–
Alcohol Tax	–	–	–	–	–
Bail Bond Fees	–	–	–	–	–
Lottery Fees	–	–	–	–	–
Total Contributions	342,332	15,109	2,232	150,300	1,817
Investment Income:					
Investment Income (Net)	919,278	15,191	4,197	206,229	1,638
Securities Lending Income	35,218	606	167	8,246	67
Less Investment Expense:					
Securities Lending Expenses	(31,437)	(541)	(150)	(7,362)	(58)
Other Investment Expenses	(26,651)	(442)	(122)	(6,070)	(49)
Net Investment Income	896,408	14,814	4,092	201,043	1,598
Other Additions:					
Transfers from Other Retirement Funds	2,982	–	–	–	–
Late Fees and Miscellaneous Income	560	–	–	132	–
Total Other Additions	3,542	–	–	132	–
Total Additions	1,242,282	29,923	6,324	351,475	3,415
Deductions					
Pension and Disability Benefits	375,842	9,487	1,919	37,125	423
Death Benefits	1	–	–	9	–
Refunds of Contributions and Interest	35,009	119	15	2,475	148
Transfers to Other Retirement FundsΩ	3,973	–	–	–	–
Pension Relief Distributions	–	–	–	–	–
Local Unit Withdrawals	–	–	–	–	–
Administrative Expenses	15,688	134	40	1,777	15
Total Deductions	430,513	9,740	1,974	41,386	586
Change in Net Assets Held in Trust for:					
Pension Benefits	811,769	20,183	4,350	310,089	2,829
State and Local Units	–	–	–	–	–
Future Death Benefits	–	–	–	–	–
Net Assets Beginning of Year	9,586,902	150,812	42,916	2,071,573	16,152
Net Assets End of Year	$ 10,398,671	$ 170,995	$ 47,266	$ 2,381,662	$ 18,981

*The accompanying notes are an integral part of these financial statements.

Legislators' Retirement System: Defined Benefit Plan	Legislators' Retirement System: Defined Contribution Plan	Other Employee Benefit Trust Funds: Public Safety Officers' Death Benefit Fund	Other Employee Benefit Trust Funds: State Employees' Death Benefit Fund	Investment Trust Fund: Pension Relief Fund	2005 Totals	2004 Totals
$ –	$ 1,386	$ –	$ –	$ –	$ 172,510	$ 167,855
206	–	–	–	–	340,872	349,631
–	–	–	–	–	–	–
–	–	–	–	29,213	29,213	29,090
–	–	–	–	2,621	2,621	2,605
–	–	19	–	–	19	22
–	–	–	–	30,000	30,000	30,000
206	1,386	19	–	61,834	575,235	579,203
449	1,240	99	272	20,713	1,169,306	1,710,026
18	34	7	21	1,367	45,751	15,145
(17)	(32)	(5)	(17)	(1,185)	(40,804)	(9,572)
(58)	(2)	(4)	(15)	(904)	(34,317)	(32,871)
392	1,240	97	261	19,991	1,139,936	1,682,728
–	–	–	–	–	2,982	2,364
–	27	–		–	719	196
–	27	–	–	–	3,701	2,560
598	2,653	116	261	81,825	1,718,872	2,264,491
283	–	–	–	–	425,079	407,594
–	–	300	100	450	860	1,008
–	886	–	–	–	38,652	35,519
–	–	–	–	–	3,973	2,781
–	–	–	–	115,228	115,228	103,463
–	–	–	–	4,091	4,091	6,004
23	–	1	4	246	17,928	16,562
306	886	301	104	120,015	605,811	572,931
292	1,767	–	–	–	1,151,279	1,718,937
–	–	–	–	(38,190)	(38,190)	(26,753)
–	–	(185)	157	–	(28)	(625)
4,661	16,300	1,834	5,418	393,784	12,290,352	10,598,793
$ 4,953	$ 18,067	$ 1,649	$ 5,575	$ 355,594	$ 13,403,413	$ 12,290,352

Note 1. Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the Public Employees' Retirement Fund of Indiana Board of Trustees (PERF):

(A) Reporting Entity

The Public Employees' Retirement Fund of Indiana Board of Trustees is an independent body corporate and politic exercising essential government functions. The financial statements presented in this report present only those funds that the PERF Board has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State. Although PERF is not a state agency, it is a component unit of the State of Indiana for financial statement reporting purposes.

The following funds are included in the financial statements: Public Employees' Retirement Fund, Judges' Retirement System, Excise Police and Conservation Enforcement Officers' Retirement Plan, 1977 Police Officers' and Firefighters' Pension and Disability Fund, Prosecuting Attorneys' Retirement Fund, Legislators' Defined Benefit Plan, Legislators' Defined Contribution Plan, Public Safety Officers' Special Death Benefit Fund, State Employees' Death Benefit Fund, and the Pension Relief Fund. See Notes 2 and 3 for descriptions of these funds.

(B) Basis of Presentation

The financial statements of PERF have been prepared using fund accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. GASB Statement 25 has been implemented for the defined benefit pension plans.

(C) Fund Accounting

PERF uses fund accounting to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

The PERF Board administers seven pension trust funds. In addition, the PERF Board also administers the Pension Relief Fund, which is accounted for as an investment trust fund, and two death benefit funds, accounted for as other employee benefit trust funds. For descriptions of these funds see Notes 2 and 3. The PERF Board also has general fund accounts on the Auditor of State's accounting system. These are used to transfer general fund appropriations to certain funds. The accounts themselves are not included in these financial statements but the appropriations are included as contributions in the funds for which the appropriations were made.

Fiduciary funds, including pension trust, investment trust and other employee benefit trust funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. The pension trust, the other employee benefit trust funds and the investment trust funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting.

(D) Basis of Accounting

The accrual basis is used for financial statement reporting purposes. Receivables are not maintained on the accounting records, but are calculated or estimated for financial statement reporting purposes. Throughout the year, the investments are maintained on the accounting records at the net asset value per the custodian bank. The custodian maintains records of the detail holdings and accounts that comprise the net asset value. At fiscal year end, the accounting records and financial statements recognize the investment receivables and payables as described below in Investment Unit Trust Accounting.

(E) Contributions

Contributions are considered due when the related payroll is issued by the employer. Employers are not required to submit the contributions until the month following the end of the quarter. The estimates for contributions receivable at year-end for each of the retirement funds were determined on the basis that best represents that fund's receivable. The different bases include actual third quarter contributions received during the quarter ended June 30, 2005, actual contributions received in July for workdays in June, or a combination of the two.

(F) Benefits and Refunds

Benefits are recognized each month as benefits are paid. First checks are issued after processing the retirement application. Refunds are recognized each month as benefits are paid.

(G) Administrative Expenses

A budget for the administrative expenses of PERF is prepared and is approved by the Board of Trustees. Administrative expenses are paid from investment earnings.

The Public Employees' Retirement Fund (PERF Fund) pays the administrative expenses of all the funds. Records of the expenses are maintained and at June 30 a receivable is established in the PERF Fund and a payable in the other funds for the amount due to the PERF Fund for the other funds' administrative expenses. The Legislators' Defined Contribution Plan is not provided funds or a method to pay administrative expenses. Therefore, the Legislators' Defined Benefit Plan covers the administrative costs of both funds.

(H) Deposits and Investments

The Treasurer of State acts as the official custodian of the cash and securities of the funds, except for securities held by banks or trust companies under custodial agreements with PERF. The Board of Trustees contract with investment counsel, trust companies, or banks to assist PERF in its investment program. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio and specify prohibited transactions. The investment guidelines authorize investments of: U.S. Treasury and Agency obligations, U.S. Government Securities, corporate bonds, notes and debentures, common stocks, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, banker's acceptances and other such investments.

(I) Method Used to Value Investments

GASB 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at market value when available, or at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the official closing price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. For investments where no readily available market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments.

(J) Investment Unit Trust Accounting

In order to provide a consolidated rate of return for the pension funds and effectively invest in a diversified manner, the Board of Trustees directed that investment unit trust accounting be implemented and that the investments be commingled as allowed by state statutes. Unit trust accounting involved assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The custodian bank prepares consolidated bank statements and fund statements that show the unit trust accounting activity. Investment earnings and appreciation increase the per unit value of all participating funds. Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a monthly basis using the pro rata fair value share at month end.

The Consolidated Retirement Investment Fund (CRIF) is an internal investment pool as defined by GASB. It is comprised of investment bank accounts that are maintained individually for each of the contracted investment managers. The CRIF included all investments and transactions of the pension funds, except for the PERF Fund members' annuity savings accounts directed outside the guaranteed fund, and a short-term investment account for building maintenance and the checking accounts. The Legislators' Defined Contribution Plan also has investment options other than the CRIF. The non-retirement funds administered by PERF are not included in the CRIF.

In accordance with GASB criteria for internal investment pools, the assets and liabilities of the CRIF were allocated pro rata to each of the retirement funds within the pool. This includes cash equivalents, securities lending collateral, accounts receivable and payable to brokers, accrued interest, and the investment holdings. The financial statements recognize the investment purchases and sales on the trade date as required by GASB.

The PERF Fund members' annuity savings accounts directed to the bond fund, S&P 500 Index stock fund, and international stock fund were included with those portfolios maintained for the consolidated fund investments. The pension relief fund also invests in the S&P 500 Index stock fund. The unit trust method is used to separately account for the transactions and balances owned by the CRIF and those owned by the PERF Fund members' annuity savings accounts and the Pension Relief Fund. This was also implemented and accounted for through the custodian bank.

(K) Real Estate Investment

In September 2004, the 125 building was sold for $1,375,000. At the September 17, 2004 board meeting, the PERF board approved a resolution to dissolve the Market Capital Ventures, LLC and thus returning the ownership of the 143 building back to PERF. The 143 building was reclassified from Real Estate Investment to Capitalized Asset. The building will be depreciated over 20 years using straight line method.

(L) Other Investments

Other Investments includes warrants, overdrafts and investment in shares of limit liability partnerships. It also includes $500,000 advanced to the Indiana Pension Systems, Incorporated (IPSI). IPSI is a joint venture between PERF and Teachers Retirement Fund (TRF) created to provide information technology services to PERF and TRF.

(M) Equipment

Equipment with a cost of $20,000 or more is capitalized at the original cost and depreciation is recognized in the Administrative Expenses. Depreciation is computed on the straight-line method over the estimated ten-year life of all assets. PERF had no capitalized equipment as of June 30, 2005.

Notes to the Financial Statements

June 30, 2005 (continued)

(N) Inventories

Inventories of consumable supplies are not recognized on the balance sheet since they are considered immaterial. Purchases of consumable supplies are recognized as expenses at the time of purchase.

(O) Reserves and Designations

The following are the legally required reserves and other designations of fund equity:

1. Member Reserve – The members' reserve represents member contributions made by or on behalf of the members plus any interest distributions, less amounts refunded or transferred to the Benefits in Force reserve for retirement, disability or other benefit. For the PERF Fund, this reserve is the members' Annuity Savings Accounts.
2. Employer Reserve – This reserve consists of the accumulated employer contributions plus earnings distributions less transfers made to the benefits in force reserve of the actuarial pension cost.
3. Benefits in Force – This reserve represents the actuarially determined present value of future benefits for all members who are currently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits.
4. Undistributed Investment Income Reserve – This reserve was credited with all investment earnings. Interest transfers have been made annually to the other reserves as allowed or required by the individual funds' statutes. The transfers are at rates established by the Board of Trustees, statutes, or the actual earning rates for certain investment options, depending on the statutes of the individual funds. The budget for the next fiscal year is transferred to the Administrative Expense designation. Any remaining balance (positive or negative) is transferred to the Employer Reserve and allocated to the employer(s) of the fund. Undistributed Investment Income Reserve is then zero at June 30.
5. Unreserved – This reserve represents the unfunded actuarial accrued liability for non-retired participants, determined by the fund's actuary, as of the date of the last valuation.
6. Administrative Expense – This designation represents the following fiscal year's administrative budget. This is only in the PERF fund, which initially pays all administrative expenses. The budget for the fiscal year ending June 30, 2006 is $64.1 million.

(P) Compensated Absences

PERF's full-time employees are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment with the State of Indiana. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation from service, employees in good standing will be paid for a maximum of thirty unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and the salary-related payments that are expected to be liquidated are reported as Compensated Absences Liability.

(Q) Transfers From and To Teachers' Retirement Fund

If a member was last employed in a PERF covered position, PERF will use the member's Teachers Retirement Fund (TRF) service and Annuity Savings Account balance at the time of retirement to calculate the member's retirement benefit. Likewise, if a member was last employed in a TRF covered position, TRF will use the member's PERF service and Annuity Savings Account balance. The respective fund sets up a receivable for both the Annuity Savings Account and the calculated reserve for the pension for those members retiring from their fund with service in the other fund. The receivable is included as a line item in the Receivable section of the Combined Statement of Fiduciary Net Assets. Likewise, a payable is set up for the amount due to the other fund. This can be found in the Liabilities sections of the Combined Statement of Fiduciary Net Assets.

(R) Adoption of New Accounting Standards

During the year ended June 30, 2005, PERF adopted Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures (and amendment of GASB Statement No. 3) ("GASB 40"). The adoption of GASB 40 required PERF to include a presentation of Deposit and Investment Risk Disclosures. The adoption of GASB 40 did not have an impact on PERF's financial statements.

Note 2. Retirement Plans

The following is a brief description of each of the retirement funds and plans:

(A) Public Employees' Retirement Fund

The Public Employees' Retirement Fund (PERF Fund) is an agent multiple-employer public employee retirement system and a defined benefit plan that acts as a common investment and administrative agent for units of state and local governments in Indiana. Established by the Indiana Legislature in 1945 and governed by IC 5-10.2 and IC 5-10.3, this trust fund provides a retirement program for most officers and employees of the State of Indiana who are not eligible for another program.

The fund also covers many officers and employees of municipalities of the State, including counties, cities, towns, townships and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the fund, and is filed with and approved by the PERF Board of Trustees. In order to be a member, employees hired after June 30, 1982 must occupy positions normally requiring performance of service of one thousand hours during a year. School corporation employees, however, as well as those hired before July 1, 1982 must occupy positions requiring service of six hundred hours during a year.

At June 30, 2005, the number of participating political subdivisions was 1,132. The PERF Fund membership at July 1, 2004 consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	54,354
Terminated employees entitled to benefits but not yet receiving them	9,884
Active employees: vested and non-vested	142,913
Total	207,151
Total covered payroll (in thousands)	$4,198,942

The PERF Fund retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. The mandatory employer contribution is a percentage of payroll, determined by PERF's actuary, necessary to fund the pension benefit in accordance with IC 5-10.2-2-11. The annuity savings account consists of the member's contributions, set by statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary post-tax contributions of up to 10 percent of their compensation into their Annuity Savings Account.

At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account instead of receiving the amount as an annuity. The annuity savings account may be withdrawn at any time should a member terminate employment prior to retirement. Withdrawal of the annuity savings account prior to retirement results in forfeiture of the related pension benefit. All benefits vest after ten years of creditable service. The vesting period is eight years for certain elected county officials. When benefit rights are vested, members may retain them even if they withdraw from active service before normal retirement age.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation, times the number of years of PERF covered employment. The average annual compensation in this calculation is an average of the member's highest twenty calendar quarters' salaries during PERF covered employment. Member contributions paid by the employer on behalf of the member and severance pay up to $2,000 are included as part of the member's salary.

A member who has reached at least age 50 and has 15 years of creditable service is eligible for early retirement with a reduced pension, ranging from 44 percent to 99 percent of the pension benefit described above. However, a member is eligible for full retirement benefits if the member is at least 55 years of age and the member's age plus number of years of PERF-covered employment equals at least 85.

The PERF Fund also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for Social Security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. Upon the death of a member in service with fifteen or more years of creditable service, a survivor benefit may be paid to the spouse or designated dependent beneficiary. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age fifty or at his death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits.

Notes to the Financial Statements

June 30, 2005 (continued)

(B) Judges' Retirement System

The Judges' Retirement System is a single employer public employee retirement system and a defined benefit plan, established in 1953 and is governed by IC 33-38-6 and -7. Coverage is for any person who has served, is serving or shall serve as a regular judge of the Supreme Court of the State of Indiana, Circuit Court of any Judicial Circuit, Indiana Tax Court or County Courts including: Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-38-8 applies to judges beginning service after Aug. 31, 1985.

Retirement, permanent disability and death benefits are provided by the Judges' Retirement System. Retirement benefits vest after eight years of creditable service. Judges who retire at or after age 65 with eight years of creditable service (or are at least 55 years of age and the participant's age in years plus the participant's years of service is at least 85) are entitled to an annual retirement annuity, payable monthly for life, in an amount calculated in accordance with statutes.

A reduced amount is paid for early retirements that may be selected upon attainment of age 62. There is no vesting requirement for permanent disability benefits. Surviving spouses or dependent children are entitled to benefits for life, or until attainment of age 18, if the participant had qualified to receive a retirement or disability annuity or had completed at least 10 years of service and was in service as a judge.

The annual retirement benefit for a participant equals the product of the salary that was paid to the participant at the time of separation from service multiplied by a percentage for year of service as defined in the statute. If the annual retirement benefit of a participant who began service as a judge before July 1, 1977, as computed per IC 33-38-7-11, is less than the amount the participant would have received under IC 33-38-6 as in effect on June 30, 1977, the participant is entitled to receive the greater amount as the participant's annual retirement benefit.

At July 1, 2004, the Judges' Retirement System membership consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	262
Terminated employees entitled to benefits but not yet receiving them	81
Active employees: vested and non-vested	275
Total	618
Total covered payroll (in thousands)	$ 25,693

Member contributions are established by statute at 6 percent of total statutory compensation and are deducted from the member's salary or paid by the employer and remitted by the Auditor of State or County Auditor. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than 22 years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State's General Fund. Indiana Code 33-38-6-17 provides that this appropriation only include sufficient funds to cover the aggregate liability of the fund for benefits to the end of the biennium, on an actuarially funded basis. The statutes also provide for remittance of docket fees and court fees. These are considered employer contributions.

(C) Excise Police and Conservation Enforcement Officers' Retirement Plan

The State Excise Police Gaming Agent, and Conservation Officers' Retirement Plan (E&C) was established in 1972 by IC 5-10-5.5 as amended. The retirement fund is a single employer defined benefit plan. The retirement fund is for employees of the Indiana Department of Natural Resources and the Indiana Alcohol and Tobacco Commission who are engaged exclusively in the performance of law enforcement duties.

The E&C Plan provides retirement, disability and survivor benefits. Retirement and survivor benefits vest after 15 years of creditable service. Each participant is required to retire on or before the first day of the month following the participant's sixtieth birthday. A participant who is at least 55 years of age and the sum of the participant's years of creditable service and age in years equals at least 85 may retire and become eligible for benefits. A step rate benefits formula specified by statute is used to calculate benefits that are payable monthly for life. A reduced benefit is provided for early retirements that are elected upon attainment of age 45 with 15 years of creditable service.

Surviving parents, or the spouse, are entitled to benefits for life generally equal to fifty percent of the amount the participant would have received if retired. Surviving unmarried children are entitled to benefits equal to their proportionate share of the amount the participant would have received if retired. This benefit will continue until the child reaches eighteen years of age or marries.

There is no vesting requirement for entitlement to the plan's permanent and temporary disability benefits. The benefit amount is greater if the disability arose in the line of duty. The benefit is based upon the participant's monthly salary times the degree of impairment as determined by the disability medical panel, established in accordance with statute.

Members are required by statute to contribute 3 percent of the first $8,500 of annual salary to the fund. If a member leaves covered employment or dies before 15 years of credited service, accumulated member contributions plus interest, as credited by the Board of Trustees, are refunded to the member, designated beneficiary, or the member's estate. The State of Indiana, as the employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage.

At July 1, 2004 the E&C Plan's membership consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	128
Terminated employees entitled to benefits but not yet receiving them	4
Active employees: vested and non-vested	251
Total	383
Total covered payroll (in thousands)	$ 10,209

(D) 1977 Police Officers' and Firefighters' Pension and Disability Fund

The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a defined benefit, multiple-employer, cost sharing public employee retirement system. The fund was established in 1977 by IC 36-8-8 to provide coverage to full-time sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township or county.

A participant is required by statute to contribute 6 percent of a first class officer or firefighter's salary for the term of their employment up to 32 years. The accumulated value of the member's contribution, including interest, may be withdrawn if the member terminates employment prior to completing twenty years of service. The fund's actuary determines employer contributions.

A member who retires at or after the age of 52, with 20 years of service, is entitled to 50 percent of the prevailing salary of a first class officer, as defined by the local unit, plus 1 percent for each 6 month period over twenty years. The maximum benefit is 74 percent of the salary of a first class officer.

The fund also provides disability and survivor benefits. If an active fund member has a covered impairment, the member is entitled to receive benefits. The statutes define the disability benefits. The benefits may be based on when the member was first hired, the type of impairment and other factors.

If a member dies while receiving retirement or disability benefits, there are provisions for the surviving spouse and children to receive a portion of the benefits. Each of the member's surviving children is entitled to a monthly benefit equal to 20 percent of the member's monthly benefit until the age of 18. The member's surviving spouse is entitled to a monthly benefit equal to 60 percent during the spouse's lifetime. If there is no eligible surviving spouse or children, a dependent parent or parents may receive 50 percent of the fund member's monthly benefit during their lifetime.

Each year the PERF board shall determine a cost of living adjustment. To calculate the adjustment, the PERF Board determines if there has been an increase or decrease in the consumer price index (United States city average) prepared by the United States Department of Labor by comparing the arithmetic mean of the consumer price index for January, February and March of that year with the arithmetic mean for the same three months of the preceding year. The increase or decrease shall be stated as a percentage of the arithmetic mean for the preceding three month period. The percentage shall be rounded to the nearest one-tenth of one percent (0.1 percent) and may not exceed 3 percent. A fund member's or survivor's monthly benefit, beginning with the July payment, shall be increased or decreased by an amount equal to the June payment times the percentage increase or decrease. However, a fund member's or survivor's monthly benefit may not be increased or decreased by a COLA until July of the year following the year of the first monthly benefit payment to the fund member or survivor. In computing a fund member's benefit, the increase or decrease is based only on those years for which the fund member was eligible for benefit payments under this chapter. A monthly benefit may not be reduced below the amount of the first monthly benefit received by the fund member or survivor.

Members that are eligible to receive an unreduced benefit may elect the provisions under the Deferred Retirement Option Plan (DROP). DROP allows a member to "freeze" their retirement at the benefit calculated at the DROP election date. The member also selects a DROP retirement date of not less than 12 months and not more than 36 months. Members who enter the DROP shall exit the DROP at the earliest of: then member's DROP retirement date, 36 months after the member's DROP entry date, member reaches the mandatory retirement age or December 31, 2007.

At June 30, 2005, the number of participating employer units totaled 160 (247 police and fire departments). Membership of the 1977 Fund at January 1, 2004 consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	1,906
Terminated employees entitled to benefits but not yet receiving them	125
Active employees: vested and non-vested	11,238
Total	13,269
Total covered payroll (in thousands)	$ 469,750

Indiana Code 36-8-8-9 was amended effective July 1, 1998 allowing firefighters and police officers who converted their benefits from the 1925, 1937 or 1953 funds and either were retired or disabled on or before June 30, 1998 to be entitled to receive benefits under the 1977 Fund using the 1977 Fund's eligibility criteria. The employees were then considered members of the 1977 Fund for the purposes of paying benefits to them, effective for benefits paid on or after Oct. 1, 1998. Due to this law change, 1,256 retirees became a part of the 1977 Fund.

(E) Prosecuting Attorneys' Retirement Fund

The Prosecuting Attorneys' Retirement Fund was established in 1989 by IC 33-39-7. The retirement fund is a single employer defined benefit plan. The retirement fund is for individuals who serve as a prosecuting attorney, chief deputy prosecuting attorney or certain other deputy prosecuting attorneys. These individuals are paid from the General Fund of the State of Indiana.

The Prosecuting Attorneys' Retirement Fund provides retirement, disability and survivor benefits. A participant is entitled to a retirement benefit if the participant is at least 65 years of age (62 years for reduced benefits), has at least 10 years of service, has ceased service as a prosecuting attorney, and is not receiving, nor entitled to receive, any salary from the state for services currently performed.

The amount of the annual retirement benefit for a participant who is at least 65 years of age is the product of the annual salary that was paid to the participant at the time of separation from service, multiplied by a percentage based on the participant's years of service. The percentages range from 30 percent for 10 years of service to 60 percent for 22 or more years of service.

If the participant is at least 62 years of age, the participant is entitled to receive a reduced annual retirement benefit that equals the benefit, as calculated above, reduced by one-fourth percent (0.25 percent) for each month that the participant's age at retirement precedes the participant's sixty-fifth birthday.

Members contribute 6 percent of their salary. They receive annual earnings 5.5 percent in accordance with statute.

Retirement benefits payable to a participant are reduced by the defined benefit portion of the pension, if any, that would be payable to the participant from the Public Employees' Retirement Fund (PERF Fund) if the participant had retired from the PERF Fund on the date the participant's retirement from the Prosecuting Attorneys' Retirement Fund occurred. Members of this fund are also participating members of the PERF Fund with the State paying the 3 percent employee contributions.

The Prosecuting Attorneys' Retirement Fund also provides disability and survivor benefits. A participant who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for Social Security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from 40 percent for 5 years of service to 50 percent for 20 or more years of service.

The surviving spouse of a participant who dies is entitled to benefits, regardless of the participant's age, if the participant was: receiving benefits from this fund, serving as a prosecuting attorney or chief deputy prosecuting attorney and had completed at least 10 years of service or met the requirements for disability benefits.

The surviving spouse is entitled to a benefit for life equal to the greater of $7,000 or 50 percent of the retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death, with the reductions as necessary for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

All disability benefits payable from the Prosecuting Attorneys' Retirement Fund and benefits payable to a surviving spouse or dependent children are reduced by the amounts, if any, that would be payable under the Public Employees' Retirement Fund.

At July 1, 2004 the Prosecuting Attorneys' Retirement Fund membership consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	18
Terminated employees with accrued creditable service	247
Active employees: vested and non-vested	214
Total	479
Total covered payroll (in thousands)	$ 15,149

(F) Legislators' Retirement System

The Legislators' Retirement System was established in 1989 by IC 2-3.5. The retirement system is for the members of the General Assembly of the State of Indiana.

The Legislators' Retirement System is comprised of two separate and distinct plans. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a single employer defined benefit plan, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (IC 2-3.5-5) applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989.

Legislators' Defined Contribution Plan

A participant of the Legislators' Defined Contribution Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions. The amount available for withdrawal is the fair market value of the participant's account on the quarter end preceding the date of withdrawal plus any contributions since the quarter end. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum or as an actuarially equivalent monthly annuity as offered by the Board of Trustees and elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member, but prior to withdrawing from the plan, the participant's account is to be paid to the beneficiary (or beneficiaries) or to the survivors. The amount to be paid is the fair market value of the participant's account (employer and employee contributions) on the quarter end preceding the date of payment, plus contributions since the quarter end.

Each participant shall make employee contributions of 5 percent of salary received for services rendered after June 30, 1989. Employer contributions equal to 20 percent of the annual salary received by each participant for services rendered after June 30, 1989 are to be appropriated from the State's General Fund.

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment options of varying degrees of risk and earnings potential. The investment options include the consolidated fund, bond fund, money market fund, small cap stock fund, S&P 500 Index stock fund, and international stock fund. Members may make changes to their investment directions quarterly. Investments of the plan are reported at fair value.

Legislators' Defined Benefit Plan

The Legislators' Defined Benefit Plan provides retirement, disability, and survivor benefits. This plan is closed to new entrants. A participant is entitled to a monthly retirement benefit if the participant is at least 65 years of age (55 years for reduced benefits) or is at least 55 years of age and whose years of service as a member of the General Assembly plus years of age equal at least 85, or is at least 60 years of age and has at least 15 years of service; has terminated service as a member of the General Assembly; has at least 10 years of service as a member of the General Assembly and is not receiving, nor entitled to receive, compensation from the state for work in any capacity.

The monthly retirement benefit is the lesser of (1) $40 multiplied by the total years of service completed by the participant as a member of the General Assembly before Nov. 8, 1989, or (2) the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the General Assembly is terminated, divided by 12.

A participant who has reached at least age 55 and meets the other requirements stated above is eligible for early retirement with a reduced benefit. The actual reduction is based on the participant's age and ranges from one-tenth of one percent (0.10 percent) to 56 percent of the monthly retirement as calculated above.

The Legislators' Defined Benefit Plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. Upon the death of a participant who was receiving retirement benefits, who had completed at least 10 years of service as a member of the General Assembly, or who was permanently disabled and receiving disability benefits from the system; the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are equal to 50 percent of the amount of retirement benefits that: (1) the participant was receiving at the time of death or (2) the participant would have been entitled to receive at 55 years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund for each biennium.

At July 1, 2004 the Legislators' Retirement System's membership consisted of:

	Defined Benefit	Defined Contribution
Retirees, disabilitants and beneficiaries receiving benefits	39	--
Terminated employees entitled to benefits but not yet receiving them	27	--
Active employees: vested and non-vested	50	182
Total	116	182
Total covered payroll (in thousands)		$ 5,547

A member of the Defined Benefit Plan may also be a member of the Defined Contribution Plan if the participant is still a member of the General Assembly or has not withdrawn from the Defined Contribution Plan since terminating service as a member of the General Assembly.

Note 3. Description of Non-Retirement Funds

The following is a brief description of the non-retirement funds administered by PERF:

(A) Pension Relief Fund

The Pension Relief Fund was created by the Indiana General Assembly in 1977 (IC 5-10.3-11). The purpose of the fund is to give financial relief to cities' and towns' pension funds for their police officers and firefighters. The financial relief is needed because cities and towns have to pay benefits to retirees under the old plans (locally administered) and adequately fund those in the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

Distributions are made from the Pension Relief Fund to cities and towns two times per year based on a fixed formula. The distribution is based on two separate computations, the "K portion" and the "M portion." The first is based on the number of retirees and amount of benefits projected to be paid during the current year, and the latter is based on the maximum ad valorem tax levy established for each participating municipality. In addition, distribution from the Pension Relief Fund is made to cover death benefits for surviving spouses of members of the 1925, 1937, and 1953 local pension funds in excess of 30 percent of the salary of a first class patrolman or a first class firefighter.

The Pension Relief Fund also pays a lump sum death benefit of $150,000. The benefit is paid to the surviving spouse, or if there is no surviving spouse, to the surviving children of a member of the 1977 Fund who dies in the line of duty as defined by 36-8-8-20. If there is no surviving spouse or children, the benefit is paid to the parent or parents in equal shares.

The Pension Relief Fund's additions are derived from contributions from the state for a portion of cigarette and alcohol taxes, a portion of the state's lottery proceeds and the investment income earned.

Cities and towns are permitted to defer receiving their earmarked relief payments from the Pension Relief Fund. The deferred amounts remain invested in the Fund and are available to those cities and towns at their request. As of June 30, 2005, cities and towns had investments with a market value of $17,047,773 on deposit in the Pension Relief Fund. In the Fund's financial statements, the earmarked relief payments are reflected as distributions and the deferred amounts are reflected as additions from cities and towns.

(B) Public Safety Officers' Special Death Benefit Fund

Indiana Code 5-10-10 established the Special Death Benefit Fund. The fund was established for the purpose of paying a lump sum death benefit of $150,000 to the surviving spouse or children of a public safety officer (as defined by IC 5-10-10-6) who dies in the line of duty. If there is no surviving spouse or children, the benefit is paid to the parent or parents in equal shares. The fund consists of bail bond fees remitted to the Auditor of State under IC 35-33-8-3.1 and investment earnings of the fund.

House Enrolled Act 1600 changed IC 5-10-10 to allowed private universities to purchase coverage under the fund. Their election into the fund could be made with the effective date of June 30, 2004. Upon their election, the private universities submit $100 for each police officer and/or firefighter. The $100 per police officer and firefighter is to be submitted annually to maintain coverage. Four private universities have elected coverage with one selecting effective date of June 30, 2004

(C) State Employees' Death Benefit Fund

Indiana Code 5-10-11 established the State Employees' Death Benefit program. Under the program, a death benefit of $50,000 is to be paid to the surviving spouse, or if there is no surviving spouse, to the surviving children (to be shared equally) of a state employee who dies in the line of duty.

The statute did not establish a method to fund the program. It stated that: "The state shall provide these benefits by purchasing group life insurance or by establishing a program of self-insurance." Effective with the state's pay period ended Oct. 23, 1993, the state assessed state agencies 0.1 percent of gross pay to fund this program. Because of the size of the fund, collection of the assessment ceased Nov. 1999.

Note 4. Contributions Required and Contributions Made

The following is a brief description of the contributions required and the contributions made to each of the retirement funds and plans:

(A) Public Employees' Retirement Fund

The State of Indiana and any political subdivision that elects to participate in the PERF Fund is obligated by statute to make contributions to the plan. The required contributions are determined by the Board of Trustees based on actuarial investigation and valuation. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities. The amortization period is 40 years for those employers whose effective date of participation is prior to 1997. The amortization period for employers joining thereafter will be reduced 1 year per year until 2007 when it will be leveled at 30 years.

The actuarial cost method used in the valuation is the entry age normal cost method in accordance with IC 5-10.2-2-9. Under this method as supplied to the PERF Fund, a normal cost is determined for each active participant, which is the level percentage of his compensation needed as an annual contribution from entry age to retirement age to fund his projected benefits.

The unfunded actuarial accrued liability on any valuation date is the accumulated value of such normal costs for each non-retired participant from entry date to the valuation date, less the value of assets for non-retired members at that date. This unfunded actuarial liability is compared to the expected unfunded actuarial accrued liability, which is determined as the prior valuation unfunded liability reduced by scheduled amortization payments and increased by interest at the actuarially assumed rate. Any changes between the actual liability and expected liability due to changes in benefit levels (excluding Cost of Living Adjustments), changes in actuarial gains or losses are amortized over a forty year period (to be reduced to 30 years by 2007, see above) from the date of change. The amortization of the unfunded actuarial liability was restarted with a 30-year term from the effective date of July 1, 2002.

The actuary calculates the net assets using an asset smoothing method for the determination of the employer actuarially required contribution. Under the smoothing method, asset gains or losses above or below the actuarially assumed rate of 7.25 percent are recognized over a four-year period. A given year's asset gain or loss will be fully recognized by the end of the fourth succeeding year.

Based on the actuarial valuation at July 1, 2004, employer required contributions were $202,630,615, which included normal cost of $203,513,973 and a negative $883,358 for amortization of the unfunded actuarial accrued liability. Contributions made by employers for the year ended June 30, 2005 totaled $206,323,043, which was 4.6 percent of covered payroll.

The required contribution levels are now determined under the assumption that a 2 percent Cost of Living Adjustment (COLA) will be granted in each future year, applying not only to then current retirees, but also to active employees who have yet to retire. Thus, the full effect of a 2 percent annual COLA is handled on a pre-funded basis.

(B) Judges' Retirement System

Contribution requirements for the Judges' Retirement System are not actuarially determined but are established by statute (IC 33-13-8-16(a)) and appropriations. The actuarial valuation suggested that the minimum contribution for the fiscal year ended June 30, 2005 was 39.6 percent of anticipated payroll. Employer contributions are appropriated from the State's General Fund.

(C) Excise Police and Conservation Enforcement Officers' Retirement Plan

The funding policy of the Excise Police and Conservation Enforcement Officers' Retirement Plan provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability over 30 years, and prevent the state's unfunded accrued liability from increasing. State statutes define the funding policy. Member contributions, defined by statute as 3 percent of the first $8,500 of annual salary, are remitted to the fund upon each payroll deduction.

Significant actuarial assumptions used to determine contribution requirements included: rate of return on the investment of present and future assets of 7.25 percent per year, compounded annually projected salary increases of 5.0 percent per year, compounded annually; and assets valued by smoothed basis.

(D) 1977 Police Officers' and Firefighters' Pension and Disability Fund

The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll. The member contribution rate is not actuarially determined, but was established by statute at 6 percent of the salary of a first class officer or firefighter.

The employer contribution rate is actuarially determined using the entry age normal cost method. The total required to actuarially fund normal cost is reduced by the total estimated member contributions.

As the 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. All participating employers were required to contribute 21 percent of the salary of a first class officer or firefighter during the fiscal year.

The significant actuarial assumptions used to compute the actuarially required employer contribution include: investment earnings of 7.5 percent per year compounded annually; salary increases of 5 percent per year; benefit increases of 3 percent per year while the benefit is in payment status; and no recoveries from disabilities.

(E) Legislators' Retirement System

For the Legislators' Defined Contribution Plan, each participant is required to contribute 5 percent of his annual salary. In addition, the State of Indiana is required to contribute 20 percent of the member's annual salary on behalf of the participant.

For the Legislators' Defined Benefit Plan, the amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

(F) Prosecuting Attorneys' Retirement Fund

The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary is to be appropriated from the State's General Fund. Members contribute 6 percent of the State-paid portion of their annual salary.

Note 5. Deposits and Investments

Investment Guidelines and Limitations:
The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards.

Within these governing statutes, the Board has broad authority to invest the assets of the plans. The Board utilizes external investment managers each with specific mandates to implement the investment program. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled account, mutual funds or other structure acceptable to the Board.

Currently, the Board has established the following asset allocation strategy for the investments held in the Consolidated Retirement Investment Fund (CRIF):

Asset Classes	Target Norm	Allowable Ranges
Equities - Domestic	45 %	42 - 51 %
Equities - International	11	8 - 17
Equities - Global	9	6 - 15
Fixed Income - Core	20	17 - 26
Fixed Income - TIPS	10	7 - 16
Alternatives	5	2 - 11

Investment in the Annuity Savings Accounts and Legislature's Defined Contribution plans are directed by the members in each respective plan and as such the asset allocation will differ from that of the CRIF. The Pension Relief Fund is invested to a target of 70 percent Fixed Income –Core and 30 percent Equities – Domestic. The Special Death Benefit Funds are 100 percent fixed income.

The following identifies investment types that are currently prohibited by the investment policy:

- Short sales of any kind
- Repurchase agreements that may create any kind of leverage in the portfolio. (Repurchase agreements as cash equivalents are permitted.)
- Purchases of letter or restricted stock
- Buying or selling on the margin
- Purchases of futures and options, except where specifically noted in Specific Guidelines
- Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indexes representing investments, unless specifically approved by the Board or as delegated to the Executive Director.
- Purchases of Interest Only or Principal Only collateralized mortgage obligations
- Purchases of Guaranteed Investment Contract (GIC's) or Bank Investment Contracts (BIC's)
- Any transactions giving rise to unrelated business taxable income (excluding current holdings)
- Any transaction that would be a "prohibited transaction" under the Internal Revenue Code Section 503
- Purchases of precious metals
- Purchases of commodities
- Purchases of inverse floaters

Custodial Credit Risk
Custodial credit risk is the risk that the PERF will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of PERF and are held by either the counterparty or the counterparty's trust department or agent but not in PERF's name.

Per IC 5-10.3-5-4(a), fund investments must be held by banks or trust companies under custodial agreements. Per IC 5-10.3-5-5, all custodians must be domiciled in the United States and approved by the department of financial institutions to act in a fiduciary capacity and manage custodial accounts in Indiana.

There was no custodial credit risk for investments. As the securities collateral was provided as a part of an external investment pool, no custodial credit risk exists.

Deposit Risks

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the two demand deposit accounts are carried at cost and are insured up to $100,000 each. Deposits in the demand accounts held in excess of $100,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Deposits held with the custodian are collateralized with securities on loan that are held by the pledging financial institution.

Cash Deposits (in thousands)	**Total**	**Bank One Benefits**	**National City AdminIstration**
Demand deposit account – carrying value	$ 12,979	$ 12,975	$ 4
Demand deposit account – bank balance	58,549	58,446	103
Held with Treasurer of State	6,341		
Held with investment custodian:			
Time Deposits (nonnegotiable)	236,932		

Credit Risk

PERF's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and, or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard and Poors) at June 30, 2005 are as follows (in thousands):

Quality Rating	**Fair Value**	**Percentage of Portfolio**
AAA	$ 2,869,063	73.6 %
AA	352,578	9.0
A	232,196	6.0
A-1	69,048	1.8
BBB	210,895	5.4
BB	74,485	1.9
B	23,677	0.6
CCC	1,625	0.0
Not rated and other	66,696	1.7
Grand Total	$ 3,900,263	100.0%

Approximately 63 percent of total investments reported are AAA rated US Treasury and Other Agencies ($2,454,000). Fixed income mutual funds were rated AA and are approximately 7 percent, or $280,000, of total investments. The remaining 30 percent of total investment balance of credit risk is allocated to corporate debt, asset backed securities and mortgage obligations with various credit quality ratings.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. Under PERF's Investment Policy Statement, exposure to a single issuer, with the exception of the U.S. Government and it agencies, is generally limited to an initial cost of 5 percent of the market value of assets managed by each investment manager. For such investment managers, through capital appreciation, the exposure to a single issuer should not exceed 7.5 percent of market value of the assets managed by the manager.

For managers contracted to manage concentrated portfolios, exposure to the securities issued by a single issuer, with the exception of the U.S. Government and it agencies, is limited to 7.5 percent of the portfolio of the manager based upon initial cost and no more than 15 percent of the market value of the portfolio as a result of capital appreciation.

At June 30, 2005, there was no concentration of credit risks for the CRIF or separately managed fund portfolios.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The greater the duration of a bond or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is an indicator of a bond price's sensitivity to a 100-basis point charge in interest rates.

PERF's fixed income portfolio investment policy sets duration guidelines that are linked directly, or indirectly, to the benchmark indices for each of its sub asset classes and as outlined in each portfolio manager contract. Several sub asset classes require that duration of the portfolio may not vary more than 20 percent above or below the duration of the applicable benchmark index.

Investment Type	**Net Asset Fair Value**	**Duration**
Short Term	$ 156,920	0.2
Government Obligation	2,067,728	5.9
Mortgage Backed	743,444	2.3
Corporate Bonds	713,414	5.3
Mutual Funds	280,179	4.2
Asset Backed	97,270	2.2
Foreign Government and Corporate Securities	11,358	2.3
Total Net Asset Fair Value	$ 4,070,313	4.7

All PERF investments are directly, or indirectly, sensitive to changes in the interest rate environment. Significant investment types that are considered highly sensitive have been identified in the derivatives financial instruments section.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. PERF's foreign currency exposure is focused in international and global equity holdings.

PERF's portfolio investment policy refers to foreign currency guidelines that are linked directly, or indirectly, to the benchmark indices for each sub asset class or as outlined in each portfolio manager contract. Certain fixed income portfolio sub asset classes allow for up to 20 percent investment in non-US dollar government and corporate securities. The Equity portfolio sub asset classes have specific guidelines for international equities and global equity investments. Certain sub asset classes do not allow "emerging" markets investments while some allow up to 20 percent of market value to be held in emerging markets.

PERF has exposure to foreign currency fluctuation as follows (see table below):

Currency	**Fair Value**	**Percentage of Holdings**
Euro	$ 626,023	35.5 %
Pound Sterling	393,523	22.3
Japanese Yen	320,239	18.2
Australian Dollar	109,575	6.2
Swiss Franc	75,400	4.3
Canadian	48,454	2.8
Other	187,952	10.7
Grand Total	$ 1,761,166	100.0 %

Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the PERF Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which securities held by the custodian on behalf of PERF may be loaned. The purpose of such a program is to provide additional revenue for PERF.

Statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities. The Board requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent. No more than 40 percent of the Fund's total assets may be lent at one time.

The custodian bank and/or its securities lending subagents provide 100 percent indemnification to the Board and the Fund against borrower default, overnight market risk and fails on the return of loaned securities. Securities received as collateral cannot be pledged or sold by the Board unless the borrower defaults. PERF retains the market value risk with respect to the investment of the cash collateral.

Cash collateral investments were subject to the investment guidelines specified by the Board. The Board policy includes that the maximum weighted average days to maturity may not exceed 60. The average duration of the cash collateral portfolio was 24 days at June 30, 2005. The securities lending agents match the maturities of the investments of cash collateral for the securities loans with stated termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

Securities lent at year-end for cash collateral included loan values as follows (in millions):

Investment Type	Loan Value
Government Obligation	$ 1,106
Corporate Bonds	78
Equities	910
Total Fair Value	$ 2,094

The credit quality of the cash collateral at June 30, 2005 was (in millions):

Cash Collateral Quality Rating	Fair Value	% of Portfolio
AAA	$ 132	6.3 %
AA	113	5.4
A-1 and A-1+	1,771	84.6
Not rated	78	3.7
Grand Total	$ 2,094	100.0 %

The majority of AAA rated collateral was asset backed securities. The majority of AA rated collateral was Guaranteed Investment Contracts. The majority of A-1 and A-1+ collateral was medium term corporate bonds and time deposits.

At June 30, 2005, PERF had loaned US Treasury and Government Agency Obligations for securities collateral. The loan value was $357.4 million which represented 102% coverage. The credit quality at June 30, 2005, also included under the credit risk section, was (in millions):

Securities Collateral Quality Rating	Fair Value	% of Portfolio
AAA	$ 357.4	100.0 %

Derivative Financial Instruments

PERF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. PERF's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, PERF's derivative investments included foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS) and futures.

Foreign currency forward contracts are used to hedge against the currency risk in PERF's foreign stock and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis.

At June 30, 2005, PERF's investments included the following currency forwards balances (in thousands):

Forward Currency Contract Receivables	$	319,093
Forward Currency Contract Payables	$	313,473

PERF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2005, the carrying value of the PERF's CMO holdings totaled $151.1 million.

TIPS are used by PERF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). In addition, PERF employs TIPS at the total fund level in order to utilize their diversification benefits. As of June 30, 2005, the carrying value of the System's TIPS holdings totaled $1,104 million.

PERF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, PERF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. As of June 30, 2005, the only derivative positions held by PERF are equity index futures.

Note 6. Commitments for Alternative Investments

The PERF Board of Trustees had approved commitments to fund limited liability partnerships of $115.8 million as of June 30, 2005. The fund has paid out $34.2 million of the commitment as of June 30, 2005. The funding period for the entire amount is July 2002 to February 2011.

Note 7. Joint Venture

PERF and the Teachers' Retirement Fund (TRF) are members in the Indiana Pension Systems, Inc (IPSI). IPSI is a tax-exempt, non-profit corporation created to provide information technology services to TRF and PERF. A five-member board composed of two TRF appointees, two PERF appointees and one appointee appointed by PERF or TRF on a rotating basis governs IPSI. The current board is composed of two TRF appointees and three PERF appointees. The board members serve two-year terms. Once the current rotating director's term expires, TRF will appoint the new director. PERF and TRF each contributed $500,000 in start-up assistance to IPSI. On dissolution of IPSI, the net assets will be distributed equally to TRF and PERF. As of June 30, 2005, IPSI's net assets were approximately $1,000,000. All IPSI expenditures are paid by IPSI and then billed periodically to TRF and PERF. Because IPSI's only clients are TRF and PERF, and all expenditures made by IPSI are billed to TRF and PERF, IPSI is not expected to have any net operating income for any financial reporting period.

Note 8. Risk Management

PERF is exposed to various risks of loss. These losses include damage to property owned, personal injury or property damage liabilities incurred by an officer, agent or employee, malfeasance and theft by employees, certain employee health and death benefits, and unemployment and worker's compensation costs for employees.

PERF's policy is generally not to purchase commercial insurance for the risk losses to which it is exposed. Instead, it records as expenditure any loss as the liability is incurred or replacement items are purchased. PERF does purchase a limited amount of insurance to limit the exposure to errors and omissions and does purchase insurance relating to the building. The PERF Board of Trustees administers the State of Indiana's risk financing activity for the state employees' death benefits. Other risk financing activities for the state are administered by other agencies of the state.

Note 9. Required Supplementary Information

The historical trend information designed to provide information about PERF's progress made in accumulating sufficient assets to pay benefits when due is required supplementary information. Required supplementary information is included immediately following the notes to the financial statements. Other supplementary information is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress *(Dollars in Thousands)*

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
Public Employees' Retirement Fund						
07/01/99	$ 7,595,266	$ 7,075,981	$ (519,285)	107 %	$ 3,250,197	(16) %
07/01/00	8,267,657	7,699,885	(567,772)	107	3,482,453	(16)
07/01/01	8,723,304	8,305,672	(417,632)	105	3,587,080	(12)
07/01/02	8,994,854	9,066,132	71,278	99	3,785,242	2
07/01/03	9,293,952	9,034,573	(259,379)	103	3,952,230	(7)
07/01/04	9,853,976	9,844,353	(9,623)	100	4,198,942	(0)
1977 and 1985 Judges' Retirement System						
07/01/99	91,073	176,301	85,228	52	30,963	275
07/01/00	103,733	182,448	78,715	57	30,428	259
07/01/01	115,040	188,610	73,570	61	29,748	247
07/01/02	121,155	188,434	67,279	64	25,805	261
07/01/03	126,152	206,846	80,694	61	25,400	318
07/01/04	135,798	209,992	74,194	65	25,693	289
Excise Police & Conservation Enforcement Officers' Retirement Plan						
07/01/99	31,510	43,368	11,858	73	11,317	105
07/01/00	34,368	46,272	11,904	74	11,306	105
07/01/01	36,921	52,024	15,103	71	12,486	121
07/01/02	37,360	55,884	18,524	67	12,654	146
07/01/03	37,286	52,006	14,720	72	11,944	123
07/01/04	38,772	50,010	11,238	78	10,209	110
1977 Police Officers' and Firefighters' Pension and Disability Fund						
01/01/99	1,184,905	1,315,275	130,370	90	321,348	41
01/01/00	1,338,554	1,451,454	112,900	92	352,377	32
01/01/01	1,491,030	1,620,294	129,264	92	389,200	33
01/01/02	1,615,245	1,808,754	193,509	89	396,246	49
01/01/03	1,660,445	1,766,846	106,401	94	432,954	25
01/01/04	1,797,124	1,875,518	78,394	96	469,750	17
Legislators' Retirement System						
07/01/99	4,319	5,473	1,154	79	N/A*	N/A*
07/01/00	4,557	5,453	896	84	N/A*	N/A*
07/01/01	4,666	5,508	842	85	N/A*	N/A*
07/01/02	4,446	5,503	1,057	81	N/A*	N/A*
07/01/03	4,200	4,948	748	85	N/A*	N/A*
07/01/04	4,206	4,856	650	87	N/A*	N/A*

* Benefit formula is primarily based on service, rather than compensation.

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
Prosecuting Attorneys' Retirement Fund						
07/01/99	8,322	13,712	5,390	61	12,566	43
07/01/00	9,781	13,943	4,162	70	13,422	31
07/01/01	11,073	20,417	9,344	54	13,636	69
07/01/02	11,957	22,386	10,429	53	14,438	72
07/01/03	12,758	15,685	2,927	81	13,159	22
07/01/04	14,655	22,588	7,933	65	15,149	52

See accompanying notes to required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION*

Schedule of Employer Contributions (Dollars in Thousands)

Public Employees' Retirement Fund

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2000	$ 159,722	135 %
2001	169,374	117
2002	175,820	118
2003	217,077	98
2004	166,574	109
2005	202,631	102

1977 and 1985 Judges' Retirement System

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2000	$ 11,491	102 %
2001	10,757	114
2002	10,320	122
2003	9,561	139
2004	10,488	124
2005	10,064	135

Excise Police & Conservation Enforcement Officers' Retirement Plan

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2000	$ 1,702	114 %
2001	1,718	118
2002	2,047	93
2003	2,324	84
2004	2,190	97
2005	1,867	116

1977 Police Officers' and Firefighters' Pension and Disability Fund

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1999	$ 77,366	95 %
2000	82,655	100
2001	91,914	93
2002	98,687	98
2003	87,253	112
2004	92,833	127

Legislators' Retirement System - Defined Benefit Plan

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2000	$ 187	91 %
2001	178	96
2002	206	91
2003	234	80
2004	95	217
2005	89	231

Prosecuting Attorneys' Retirement Fund

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2000	$ 426	65 %
2001	375	73
2002	907	48
2003	1,129	40
2004	144	648
2005	889	108

*See accompanying notes to required supplementary information.

Notes to Required Supplementary Information

June 30, 2005

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	Public Employees' Retirement Fund	1977 and 1985 Judges' Retirement System	Excise Police & Conservation Enforcement Officers' Retirement Plan
Valuation Date	July 1, 2004	July 1, 2004	July 1, 2004
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
Amortization Method	Level Dollar, Closed Amortization Period	Level Dollar, Closed Amortization Period	Level Dollar, Closed Amortization Period
Remaining Amortization Period[1]	30 Years	29 Years	30 Years
Asset Valuation Method	75% of Expected Actuarial Value Plus 25% of Market Value	Smoothed Market Value	Smoothed Basis
Actuarial Assumptions:			
Investment Rate of Return	7.25%	7.25%	7.25%
Projected Salary Increases	Based on PERF experience 1995-2000	5%	5%
Post-retirement Benefit Increases	N/A	5%	N/A
Cost of Living Increases	.5%	N/A	.5%

	1977 Police Officers' and Firefighters' Pension and Disability Fund	Legislators' Retirement System- Defined Benefit Plan	Prosecuting Attorneys' Retirement Fund
Valuation Date	January 1, 2004	July 1, 2004	July 1, 2004
Actuarial Cost Method	Entry Age Normal Cost	Accrued Benefit (Unit Credit)	Entry Age Normal Cost
Amortization Method	Level Dollar, Open Amortization Period	Level Dollar, Closed Amortization Period	Level Dollar, Open Amortization Period
Remaining Amortization Period	30 Years	18 Years	30 Years
Asset Valuation Method	Smoothed Basis	Smoothed Market Value Basis	Smoothed Market Value Basis
Actuarial Assumptions:			
Investment Rate of Return	7.25%	7.25%	7.25%
Projected Salary Increases	4%	3%	5%
Post-retirement Benefit Increases	N/A	N/A	N/A
Cost of Living Increases	2.75%	.5%	N/A

[1] If 30, a new basis is determined and is amortized 30 year. The prior basis are maintained and amortized over their remaining 30 years.

The July 1, 2002 PERF valuation, for plan year ended June 30, 2003, was the first to reflect census data as reported by a new database system. The previous database system reported salaries on a calendar year basis and reported service through the March 31 preceding the valuation date. The new database system reports both salary and service on a fiscal year basis. Also, the new database system may have created an increase of about $70 million in liabilities associated with prior service earned by active members. Due to the fiscal impact of the more current data, this valuation has been prepared in such a manner as to phase-in the changes brought about by the new database system over a four-year period on a pro rata basis. This phase-in will ease the transition to the census data reporting by the new database system.

The July 1, 2002 valuation also reflects a fresh start of the amortization of unfunded actuarial accrued liabilities. Previous valuations reflected amortizations that began with an Initial Unfunded Liability established in 1975. Additional amortization bases were added in the years following, primarily reflecting actuarial experience gains and losses but also reflecting changes in actuarial methods and assumptions and changes in plan provisions. By fresh starting the amortization of unfunded actuarial accrued liabilities over a 30-year closed period, the Fund will be able to utilize currently the cost savings of future favorable amortization amounts.

In the July 2003 valuation for the Judges' Retirement System we switched from a 40 year amortization to a 30 year. The difference in the Annual Required Contributions between the 30 and 40-year amortization was $423 thousand.

OTHER SUPPLEMENTARY INFORMATION

Administrative Expenses

Year Ended June 30, 2005 (Dollars in Thousands)

Personal Services:	
Salaries and Wages	$ 4,856
Employee Benefits	1,634
Supplemental Services	-
Total Personal Services	6,490
Professional Services:	
Actuarial Services	87
Legal Services	233
Consultants	5,794
Contractual Services	39
Information System Development Services	2,532
Total Contractual and Professional Services	8,685
Communications:	
Telephone	96
Postage	666
Printing Expense	489
Other	52
Total Communications	1,303
Miscellaneous:	
Data Processing	163
Travel	35
Supplies and Maintenance	625
Dues and Subscriptions	61
Office Supplies	57
Office Equipment	118
Other	391
Total Miscellaneous	1,450
Total Administrative Expenses	$ 17,928

Allocation of Administrative Expenses:	
Public Employees' Retirement Fund	15,688
Judges' Retirement System	134
Excise Police and Conservation Enforcement Officers' Retirement Plan	40
1977 Police Officers' and Firefighters' Pension & Disability Fund	1,777
Prosecuting Attorneys' Retirement Fund	15
Legislators' Retirement System – Defined Benefit Plan	23
Public Safety Officers' Death Benefit Fund	246
State Employees' Death Benefit Fund	1
Pension Relief Fund	4
Total Administrative Expenses Allocation	$ 17,928

Investment Expenses

Year Ended June 30, 2005 (Dollars in Thousands)

Investment Expenses		
Custodial and Consulting		
Burnley Associates, Inc.	Investment Consulting	36
Cost Effectiveness Measurement, Inc.	Investment Consulting	19
J. P. Morgan Investment Mgmt Inc.	Custodial Fees	441
Plexus Group, Inc.	Investment Analysis (Trading Cost)	40
Strategic Investment Solutions	Investment Consulting	259
William M. Mercer	Investment Consulting	256
Wilshire Associates	Investment Analysis Software	9
Domestic Equity		
Brandes Investment Partners	Equity - Mid Cap Value	2,192
Brown Capital Management	Equity - Mid Cap Value	1,033
Dimensional Fund Advisors	Equity - Small Cap Enhanced	–
Hotchkis & Wiley Capital Management, LLC	Equity - Large Cap Value	871
Jacob Levy Equity Management, Inc.	Equity - Small Cap Growth	2,094
Merrill Lynch	Equity - Large Cap Value	–
Numeric Inc.	Equity - Small Cap Value	2,265
Osprey Partners	Equity - Small and Large Cap Value	3,425
Sands Capital Management	Equity - Large Cap Growth	716
Times Square Capital	Equity - Small Cap Growth	1,495
Turner Investment Partners	Equity - Large Cap Growth	2,813
Wells Capital Management	Equity - Mid Cap Growth	1,306
International Equity		
Baille Gifford and Company	Equity - International Growth	2,232
Barclays Global Investors	Equity - International Core	3,110
GE Asset Management	Equity - International	–
Mondrian Investment Partners Limited	Equity - International	743
Global Equity		
Brandes Investment Partners	Equity - Global Value	1,480
Capital Guardian Trust Company	Equity - Global Growth	1,449
Invesco	Equity - Global Core	931
Fixed Income		
BlackRock Financial Management, Inc.	Fixed Income - Core Opportunistic	853
Hughes Capital Management, Inc.	Fixed Income - Indexed	204
Lehman Brothers Asset Management, LLC	Fixed Income - Active	282
National City	Fixed Income - Indexed	13
Northern Trust Quantitative Advisors, Inc.	Fixed Income - Indexed	280
Reams Asset Management Co.	Fixed Income - Active	453
Seix Investment Advisors	Fixed Income - Active	205
Taplin, Canida & Habacht	Fixed Income - Active	408
Western Assets Management Co.	Fixed Income - Core Opportunistic	1,246
Short Term Investments		
National City	Sweep Fees	29
Bank One Trust Co. of Indiana	Sweep Fees	58
J. P. Morgan Investment Mgmt Inc.	Sweep Fees	1,071
Total Investment Expenses		$ 34,317

OTHER SUPPLEMENTARY INFORMATION

Contractual and Professional Services Expenses

Year Ended June 30, 2005 (Dollars in Thousands)

Individual or Firm	Fee	Nature of Services
Crowe Chizek Company LLP	$2,367	Accounting and Process Decumentation Services
Clifton Gunderson	2,334	Accounting Software Consulting and Training Services
Indiana Pension System, Inc	2,097	IT System Development and Support
Bachofer Consulting	929	IT System Development
IDTC-State of Indiana	232	Computer Network Support
Covansys	201	IT System Development
Ice Miller Legal & Business Advisors	106	Legal Services
McCready and Keene, Inc.	87	Actuarial Services
Bingham McHale LLP	76	Legal Services
Juergensen Consulting	51	Change Management and Project Management
Forest Bowman Jr.	42	Special Investigation
Omkar Markand, M.D.	41	Medical Consulting - Police & Fire Fund
The Anderson Group Consulting, LLC	38	Data Entry Services
Sungard Availablitiy Services	37	Computer Backup Services
Image Entry	27	Data Entry Services
Baker & Daniels	7	Legal Services
Eclectic Information, Inc	4	Report Development
The Titus Group	3	Special Investigation
Recall-Total Information	2	Document Security Services
Wayne E. Uhl	2	Legal Services
Internal Revenue Service	1	Mailing Service
The Berwyn Group	1	Records Request
Total Contractual and Professional Services Expense	**$8,685**	